2001 annual report

GEODYNE

AR59

Winspear Business Reference Library
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

ASSERTIVE GROWTH

corporate profile

Geodyne Energy Inc. is a Calgary-based emerging energy company engaged in the exploration, development and production of oil and gas assets that offer superior investment potential.

The company has assembled an experienced and entrepreneurial management team committed to creating and maximizing shareholder value through a strategy of assertive growth. This strategy is designed to develop the company through a combination of internally generated exploration and development prospects and the strategic acquisition of oil and gas assets.

Since 2000, when the current management took over the leadership of the company, Geodyne has demonstrated steady growth in production and reserves, achieving record operational results in 2001.

The company enters 2002 with more prospects, more resources, and more potential for growth than ever before in its history.

corporate mission

Geodyne's mission is to establish core operational areas for the company that offer exposure to low risk but rapid growth opportunities through the disciplined exploration, development and acquisition of oil and gas assets. In 2001, an initial core area was successfully established in Southeast Alberta. The company has further plans in 2002 to capitalize on its strong undeveloped land position to generate additional drilling prospects while also establishing a second and possibly a third core area for the company in Western Canada.

financial and operating highlights

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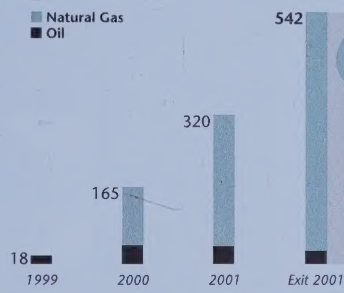
Revenue	$	2,484,768
Cash Flow*	$	725,027
per share	$	0.06
Earnings	$	991,837
per share	$	0.08
Value of Reserves (proved plus risked probable – PWV 15%)	$	12,406,700
Value of Undeveloped Lands	$	2,204,256
Total Debt and Working Capital	$	3,824,433
Net Asset Value	$	10,786,523
per share	$	0.54
Capital Expenditures (including acquisitions)	$	6,308,859
Current Number of Shares Outstanding		20,020,870

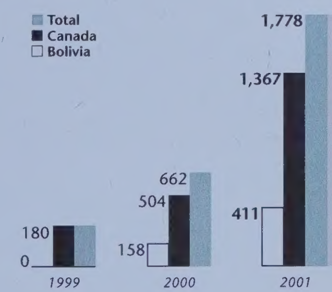
Production
(boepd; 6:1)



94%

Production results for 2001 reflect the acquisition of producing properties in Southeast Alberta and additional production from drilling successes.

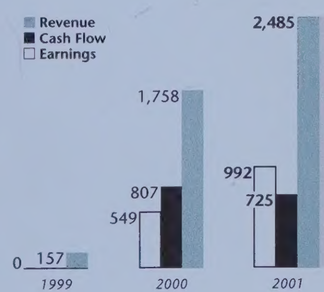
Proved and Probable Reserves
(mboe; 6:1)



169%

Geodyne's acquisitions and drilling successes translated into strong growth in reserves. (These figures represent proved and probable reserves before royalty deductions.)

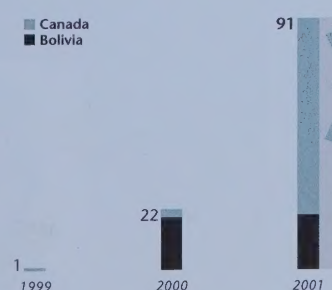
Financial Results
($000s)



41%

Geodyne's increased production led to a 41% increase in revenue gains in 2001, while lower commodity prices in the second half of the year impacted cash flow results.

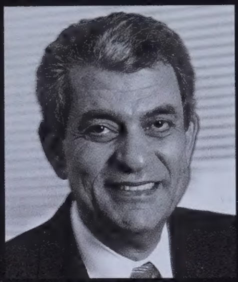
Land Inventory
(000 acres)



310%

A significant property and land acquisition in Southeast Alberta increased Geodyne's undeveloped, high working interest, land acreage, further enhancing the company's prospect inventory.

*Before changes in non-cash working capital.

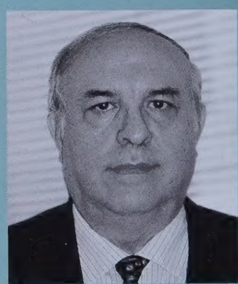


ABBY BADWI
President and Chief Executive Officer

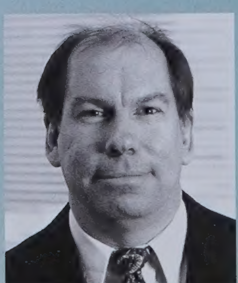
MARTIN EDEN
Vice-President, Finance
and Chief Financial Officer

LEIGH MUIR
Vice-President, Production

DERMOT O'SHEA
Vice-President, Exploration



CARLOS GARCIA
Senior Vice-President,
South America



RICK ELIAS
Reservoir Engineer
and Evaluations Consultant

GORD JOHNSTON
Business Development
and Land Consultant

management team

ABBY BADWI President and Chief Executive Officer
An industry executive and geologist with 32 years experience in Canada and internationally, previously Mr. Badwi was president and founding member of Carmanah Resources where he was responsible for directing and operating the company's capital programs in Canada, Indonesia and Venezuela. He has also served as Vice-President, International Exploration for Sceptre Resources, managing the company's exploration activities in Southeast Asia, the Middle East and South America. As a geologist and exploration manager, Mr. Badwi explored the Western Canadian sedimentary basin for many years with Soquip Alberta, Canadian Superior Oil and PanCanadian Petroleum.

CARLOS GARCIA Senior Vice-President, South America
Based in Buenos Aires, Argentina, Mr. Garcia is a petroleum engineer with 30 years of experience in petroleum production, reservoir engineering and drilling in South America. Previously, he was General Manager of Exploration and Production with Compania General de Combustiles (CGC) where he was in charge of upstream operations in Argentina, Ecuador, Guatemala and Venezuela. He also worked for many years with Mexpetrol, Astra and YPF (the Argentine National Oil Company).

MARTIN EDEN, Vice-President, Finance and Chief Financial Officer
Mr. Eden is a chartered accountant, holding an MBA, with over 32 years of finance and management experience in Canada and internationally. Over the course of his career he has worked for Coopers & Lybrand, Dome Petroleum and Ernst & Young; he has also served as Canadian Occidental's Finance Manager in Yemen and as Chief Financial Officer for the Kyrgyz Petroleum Company in the Kyrgyz Republic.

LEIGH MUIR Vice-President, Production
Mr. Muir is a professional engineer with 25 years experience in production engineering, property optimization and drilling in Canada and the United States. He has worked as a production engineer with PanCanadian Petroleum, Canadian Worldwide Energy, Morrison Petroleums and Enerplus Resources. Prior to joining Geodyne, he was President of Highlands Resources where he provided production engineering consulting services to a variety of oil and gas companies.

DERMOT O'SHEA Vice-President, Exploration
Mr. O'Shea is a geologist and oil and gas finder with 15 years of experience in Western Canada. Previously, he was Director of Geology with Crestar Energy where he was responsible for managing the company's significant exploration and exploitation projects. He has also worked as an exploration geologist with Encor Energy and Penn West Petroleum.

GORD JOHNSTON Business Development and Land Consultant
Mr. Johnston has 28 years of land and contracts experience in the oil and gas industry. Previously he was Vice-President of Land with Opal Energy and Sceptre Resources and started his career as a landman with Amoco Canada. For the last three years he has been a consultant with several oil and gas companies in Canada.

RICK ELIAS Reservoir Engineer and Evaluations Consultant
An engineer with over 20 years of experience in the oil and gas industry, Mr. Elias has extensive experience as an engineering consultant working with such clients as Burlington Resources, Exxon-Mobil Indonesia, Conoco, Petro-Canada and Gulf Canada Resources. Previously, he has held reservoir, exploitation and production engineering positions with PanCanadian, Voyager Energy and Dome Petroleum.

letter to shareholders

In 2001, Geodyne Energy Inc. continued to prove the potential of its strategy for assertive growth and development. Fueled by our drilling and acquisition successes, and by our growing production, reserve volumes and revenues, we set a new record of accomplishment over the past year.

Geodyne's successes in 2001 can be credited to our vision for the company and the opportunities and value created by successfully executing that vision. In a relatively short span of time we have taken the company to new heights of achievement supported by an accelerated business plan and a strategic road map designed to yield superior short-term return on investment to our shareholders.

GEODYNE'S OPERATIONAL AND FINANCIAL ACHIEVEMENTS

During 2001, Geodyne delivered on the promises made last year. We focused on adding value through the drill bit and strategic acquisitions, harvesting opportunities sourced during the company's initial phase of development. As a result, our operations set company records in major categories of performance measurement, including:

- A production increase of 94% to an average of 320 boepd comprised of 1.7 mmcf/d natural gas and 38 bopd.
- A 70% increase in the exit production rate to 542 boepd comprised of 3.1 mmcf/d and 25 bopd.
- A 41% increase in revenue to $2.5 million.
- A 135% increase in capital investment to $6.3 million.
- A $3.3 million equity financing from two private placements of flow-through shares.
- A 93% increase in proved reserves to 5.4 billion cubic feet of natural gas and 181,000 barrels of oil.
- A 199% increase in proved and risked reserves value, discounted at 15%, to $12.4 million.
- A $3.5 million asset acquisition expanding our core area of operation in Southeast Alberta and providing 58,000 gross acres (42,000 net acres) of undeveloped land inventory.
- A successful drilling and re-entry program resulted in six gas wells and two oil wells.

While lower commodity prices in the second half of 2001 dampened our operational and financial achievements, Geodyne still managed to generate $725,027 in cash flow and $991,837 in net income, which includes $878,398 in future income tax recovery.

CANADIAN OPERATIONS

In Canada, Geodyne began to concentrate more heavily on what is now our core area in the Provost-Kirkwall region of Southeast Alberta. Given the company's technical and operational expertise in the area, its lower drilling and completion costs, the potential to develop additional reserves and our strong competitive position in this area, we believe our focus here is a solid and viable strategy for the company. This region is currently producing 100% of Geodyne's production volumes.

In September 2001, Geodyne boldly stepped forward to complete a $3.5 million asset acquisition package in our Southeast Alberta core area, which has the company dramatically positioned to achieve even greater success in 2002. The acquisition greatly expanded our land holdings and provided a substantial inventory of drilling prospects complemented by extensive seismic coverage.

Ambitious, company-operated seismic and drilling programs are underway for 2002 as we expect to drill 17 wells (10 net wells) and generate a number of additional drilling prospects.

SOUTH AMERICAN OPERATIONS

Internationally, Geodyne has been involved in a project in Villamontes, Bolivia, a field with four suspended oil and gas wells, and with a low-risk development upside. Eighteen thousand seven hundred and fifty acres of undeveloped lands are also available for exploration on this block, which is located in Bolivia's most prolific oil province. Over the past year, the company re-activated the VMT-5 well in this field; and the VMT-1 side-track location is expected to commence drilling in the second quarter of 2002.

Late last year, due to lower oil prices and economic uncertainty in South America, the company elected to reduce its interest at Villamontes to 15% (subject to final agreement with the operator). We will continue to investigate, with minimal financial exposure, further opportunities in South America that have the potential to maximize returns while minimizing risk.

A VISION AND STRATEGY FOR GROWTH

Geodyne's vision and strategy have been consistent since 2000, when the current management took over the leadership of the company. Beginning with $400,000 of seed capital, management's focus has been to build from grass roots a company that will offer superior short-term return on investment to its shareholders.

Our vision for growth involves two distinct phases. The first phase has been focused on establishing a presence in one core area that offers exposure to low-risk but rapid growth opportunities via a disciplined exploration, development and acquisition program. Geodyne completed this initial phase of our growth strategy in 2001. We now have a large land position in our Southeast Alberta core area, where we have built reserves, production and cash flow through drilling and asset acquisitions. **Our strategy resulted in the size of the company doubling and production tripling over the past year.**

The next phase of our growth strategy will involve using our strong undeveloped land position to generate additional drilling prospects while also establishing a second and possibly a third core area for the company in Western Canada.

Continuing along this accelerated growth path, and with a modest increase in commodity prices, we expect to double our production again this year and to realize even greater returns in 2002 and beyond.

LOOKING FORWARD – WHAT TO EXPECT FROM GEODYNE IN 2002

We have developed an aggressive capital expenditure program for 2002 and have solidified our ability to complete this program. The company capitalized on a natural gas price rebound by hedging 50% of current production, at an average price of $4.05/mcf, until October 31, 2002. Locking this amount of production, at this price, we are better positioned to achieve our forecasts and maintain sufficient production volumes to capitalize on any upside resulting from potential increases in commodity prices.

Geodyne's plans for 2002 include:

- A capital expenditure program of $4.2 million.
- An aggressive drilling program that will include the drilling of 17 wells (10 net wells) in Canada and one well in Bolivia.
- An exit production rate of 1,000 boepd.

We are proud of our accomplishments to date and remain confident that we will continue to execute our business plan successfully and prosper through the opportunities and challenges that we will encounter.

I would like to thank our directors, management team and staff for their significant contribution and support in 2001 and for making it such a rewarding year.

April 18, 2002

On behalf of the Board of Directors,

ABBY F. BADWI
President and Chief Executive Officer

Geodyne saw an impressive growth in production in 2001. Total production grew by 94% to 320 boepd, from 165 boepd in 2000. At year-end the company's production was 542 boepd comprised of 3.1 mmcf/d of natural gas and 25 bopd. Successful exploration and development activity, complemented by a significant property acquisition in Southeast Alberta, accounted for Geodyne's growth in production and reserves over the past year.

SOUTHEAST ALBERTA ASSET ACQUISITION

On September 28, 2001, Geodyne completed a $3.5 million asset acquisition in Southeast Alberta. Daily production from this property averaged 1.2 mmcf/d and five barrels of oil. The property comprises 91 sections (58,000 gross acres / 42,000 net acres), of which 67 sections (43,000 gross acres / 32,000 net acres) are classified as undeveloped lands. Geodyne's average interest in these assets is 70%. Fourteen potential locations were identified at the time of acquisition, most of which will be drilled by the company during 2002. A total of 530 kilometers of 2D seismic and 14 square kilometers of 3D seismic data cover these properties and will be utilized to develop further drilling prospects.

Properties on these lands include:

Kirkwall: Average net production volume from this 60% company-operated property is currently 900 mcf/d producing from eight Belly River and Viking gas wells. Production is gathered in Geodyne's gathering system and processed by a third-party operator. The company has already optimized production from this property and has plans to drill several development locations and one exploration well in 2002.

Youngstown and Chinook: The company holds an average 80% working interest in 13 sections of undeveloped lands and operates one well in this area, currently producing at a net rate of 155 mcf/d. The company has budgeted a seismic program and two exploration wells for this area in 2002.

Heathdale: Average net production from one operated well and three non-operated wells in this area is 330 mcf/d. Three of the four wells were drilled last year. In addition, the company holds varied interests in 18 sections of undeveloped lands.

Alsask: Geodyne has a variety of working interests in 20 sections of undeveloped lands on this property and a 24% interest in one non-operated gas well presently producing at an average net rate of 225 mcf/d.

KIRKPATRICK AND PROVOST

Average net production volume from this 100% company-owned and operated Kirkpatrick field is currently 1.0 mmcf/d from nine Belly River gas wells. Production is gathered in Geodyne's gathering system and processed by a midstream third-party operator. The company replaced one of the compressors at the field with a new and larger capacity compressor, which was installed to handle additional gas delivery. Any production declines during the year were offset by two successful re-completions and re-entries of two wells maintaining production at 1.0 mmcf/d. The company has also entered into a farm-in agreement on two sections of lands offsetting the Kirkpatrick acreage and is planning to re-enter two wells this year with a prospect of drilling four additional wells in the area.

At Provost, the company acquired 1,280 acres of Crown lands and farmed-in on five additional sections. The company drilled three wells and two re-entries on these lands resulting in four gas wells and one oil well. All wells are presently on-stream and currently producing at an average net rate of 125 mcf/d and 25 bopd. Geodyne's average interest in the lands vary between 40% and 100%. The company is planning to develop this property further with two wells planned for 2002. A compressor will also be installed in the field to optimize production from the gas wells.

STANMORE AND RICHDALE

Geodyne farmed-in on three sections and acquired two sections of lands in this area. Two wells were also drilled, resulting in one Viking gas well and one dry hole. The gas well has since been tied-in and is currently producing at an average net rate of 480 mcf/d. Two wells are scheduled for drilling in 2002. Geodyne operates these lands and has a 100% working interest.

MATZIWIN AND PRINCESS

The company holds a 100% working interest and operates three oil wells in Matziwin and Princess. Average production from this area is 28 bopd. Due to lower commodity prices and higher operating costs for this medium gravity crude, the company elected to shut-in these wells during the winter months last year and re-activated the wells again in March, 2002. The wells are currently producing at an average rate of 25 bopd.

southeast alberta core area

WEST CENTRAL ALBERTA

In the Fir area, Geodyne entered into a farm-in agreement, in the first quarter of 2002, to participate in the drilling of one development location. The 25% working interest well was drilled and cased as a multi-zone Cretaceous gas well. The well is currently on production at a rate of 1.8 mmcf/d (net 450 mcf/d). Geodyne is presently evaluating other land acquisitions in the area and will endeavor to develop a new core area here for the company.

SOUTH AMERICA

Villamontes, Bolivia

The VMT-5 well in the Villamontes field has produced a cumulative 250,000 barrels of oil since 1988 but was suspended in 1995. The company re-activated the VMT-5 well by installing an artificial gas lift. Initial gross production after re-activation was 70 bopd and 800 bwpd, but has since declined to 30 bopd and 850 bwpd.

Drilling preparations are now complete and plans are in place to spud the VMT-1 sidetrack development well to access untapped reserves in an up-dip position of the existing wells. Previously, the well had produced 463,000 barrels of oil and had an initial production of 1,000 bopd before it was suspended in 1991.

Due to lower oil prices and economic uncertainty in the region, late last year the company elected to reduce its interest at Villamontes from 25% to 15% working interest (subject to final agreement with the operator) and decided with its partners to delay the drilling of the well until the second quarter of 2002.

Neuquen Basin, Argentina

Over the past year, Geodyne continued to examine new exploration and development opportunities in Argentina's Neuquen Basin and participated in, but was unsuccessful in, acquiring a block in a provincial land offering last August. Other bid rounds are scheduled for 2002 and Geodyne will assess the risk and merits of participating in future bid rounds.

Geodyne's reserves are located in Alberta, Canada and at Villamontes in Bolivia. McDaniel & Associates Consultants Ltd. of Calgary prepared the evaluation of the company's reserves in Canada as at January 1, 2002. Gaffney, Cline & Associates Inc. of Houston prepared the evaluation of the company's Bolivian reserves as at December 31, 2001.

RESERVES AND PRESENT WORTH VALUE

Escalating Prices

	Company Share of Remaining Reserves						Company Share of Present Worth Values Before Income Tax[4, 5, 6, 9] (*$000s*)		
	Gross[1]			Net[2]					
	Natural Gas (*mmcf*)	Crude Oil (*mbbl*)	Total (*boe*)[3]	Natural Gas (*mmcf*)	Crude Oil (*mbbl*)	Total (*boe*)[3]	@ 0%	@ 10%	@ 15%
CANADA									
Proved reserves									
Proved producing	4,473.2	0.1	745.6	3,286.7		547.8	9,232.7	7,213.6	6,522.4
Proved non-producing	510.6	20.6	105.7	389.9	17.5	82.5	1,334.2	1,046.8	939.9
Proved undeveloped	399.2		66.5	328.1		54.6	973.4	663.5	564.1
Total proved reserves	**5,383.0**	**20.7**	**917.8**	**4,004.7**	**17.5**	**684.9**	**11,540.3**	**8,923.9**	**8,026.4**
Probable reserves	2,610.6	13.7	448.8	1,963.5	12.9	340.2	7,330.9	4,460.1	3,640.5
Total proved & probable reserves	**7,993.6**	**34.4**	**1,366.6**	**5,968.2**	**30.4**	**1,025.1**	**18,871.2**	**13,384.0**	**11,666.9**

	Company Share of Remaining Reserves			Company Share of Present Worth Values Before Income Tax[4, 7, 8, 9] (*US$000s*)			Company Share of Present Worth Values Before Income Tax[4, 7, 8, 9] (*Cdn$000s*)		
	Gross[1]								
	Natural Gas (*mmcf*)	Crude Oil (*mbbl*)	Total (*boe*)[3]	@ 0%	@ 10%	@ 15%	@ 0%	@ 10%	@ 15%
BOLIVIA									
Proved reserves									
Proved producing	25.0	5.2	9.4						
Proved non-producing		0.0	0.0						
Proved undeveloped		155.3	155.2	1,302.8	1,089.6	1,006.3	2,071.5	1,732.5	1,600.0
Total proved reserves	**25.0**	**160.5**	**164.6**	**1,302.8**	**1,089.6**	**1,006.3**	**2,071.5**	**1,732.5**	**1,600.0**
Probable reserves	484.0	166.0	246.7	1,955.6	1,403.4	1,207.6	3,109.4	2,231.4	1,920.1
Total proved & probable reserves	**509.0**	**326.5**	**411.3**	**3,258.4**	**2,493.0**	**2,213.9**	**5,180.9**	**3,963.9**	**3,520.1**
TOTAL RESERVES	**8,502.6**	**360.9**	**1,777.9**				**24,052.1**	**17,347.9**	**15,187.0**

1 Before royalty deductions.
2 After royalty deductions.
3 Barrels of oil equivalent based on 6.0:1 for natural gas, 1.00:1 for condensate and C5+, 1.00:1 for ethane, 1.00:1 for propane, 1.00:1 butanes, 1.00:1 for NGL mix, 1.00:1 for sulphur. PWV/BOE based on gross BOE reserves.
4 No allowance was made for the degree of risk associated with any of the reserve categories.
5 Included allowance for Alberta Royalty Tax Credit.
6 Costs associated with extraction of natural gas products have in most cases been deducted from the natural gas revenues.
7 Present worth values for Bolivia prepared in US dollars and converted to Canadian dollars at US$1:Cdn $1.59.
8 Net of 18% Bolivian royalties.
9 Based on escalating prices at December 31, 2001.

PRESENT WORTH VALUES

Constant Prices

	Company Share of Present Worth Values Before Income Tax ($000s) 0%	10%	15%
CANADA[1]			
Proved reserves	9,037.3	7,061.6	6,376.2
Probable reserves	5,755.9	3,534.4	2,892.3
Total	14,793.2	10,596.0	9,268.5
BOLIVIA[2]			
Proved reserves	2,071.5	1,732.5	1,600.0
Probable reserves	3,109.4	2,231.4	1,920.1
	5,180.9	3,963.9	3,520.1

[1] Based on natural gas price of $3.66 per mcf and crude oil price of $28.15 per barrel. No allowance was made for the degree of risk associated with any of the reserve categories.

[2] Based on crude oil price of WTI US $19.78 per barrel less discount of US$3.98 per barrel.

RESERVES RECONCILIATION

Company share reserves before royalty deductions

	Natural Gas Proved (mmcf)	Natural Gas Probable (mmcf)	Natural Gas Total (mmcf)	Crude Oil Proved (mbbl)	Crude Oil Probable (mbbl)	Crude Oil Total (mbbl)
CANADA						
December 31, 2000	2,378.0	164.4	2,542.4	68.1	12.5	80.6
Acquisitions & additions	3,298.0	2,132.9	5,430.9	20.8	13.7	34.5
Technical revisions	323.5	313.3	636.8	(56.7)	(12.5)	(69.2)
Dispositions	0.0	0.0	0.0	0.0	0.0	0.0
Production	(616.5)	0.0	(616.5)	(11.5)	0.0	(11.5)
December 31, 2001	**5,383.0**	**2,610.6**	**7,993.6**	**20.7**	**13.7**	**34.4**
BOLIVIA						
December 31, 2000	153.0	61.0	214.0	70.0	52.0	122.0
Acquisitions & additions	0.0	0.0	0.0	0.0	0.0	0.0
Technical revisions	(128.0)	423.0	295.0	92.9	114.0	206.9
Dispositions	0.0	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.0	0.0	(2.4)	0.0	(2.4)
December 31, 2001	**25.0**	**484.0**	**509.0**	**160.5**	**166.0**	**326.5**

FINDING, DEVELOPMENT AND ACQUISITION COSTS

($/boe)[1]

	2001 Proven	2001 Proven & Probable	2000 Proven	2000 Proven & Probable
Canada	**$ 9.67**	**$ 5.62**	$ 5.08	$ 5.14
Bolivia	**$ 8.49**	**$ 2.37**	$ 4.06	$ 2.46

[1] Based on increase in net company share of reserves before royalty deductions.

The following discussion and analysis should be read in conjunction with the financial statements included on pages 16 to 24 of this report.

RESULTS OF OPERATIONS

HIGHLIGHTS

	2001 $	2001 $/boe[2]	2000 $	2000 $/boe[2]
Revenue	$ 2,484,768	$ 21.33	$ 1,758,106	$ 29.16
Expenses				
Operating	1,061,906	9.11	619,970	10.28
General and administrative	606,483	5.21	276,374	4.58
Interest expense	91,352	0.78	54,611	0.91
Cash flow from operations[1]	725,027	6.23	807,151	13.39
Depletion and depreciation	(547,662)	(4.70)	(197,571)	(3.28)
Site restoration	(63,926)	(0.55)	(60,324)	(1.00)
Future income tax recovery	878,398	7.54	0	0
Net income	991,837	8.52	549,256	9.11
Per share – earnings	0.08		0.07	
– cash flow[1]	0.06		0.11	
Capital expenditures	2,805,662		1,046,915	
Acquisitions	3,503,197		1,635,670	
Working capital deficiency	(889,433)		(238,656)	
Debt	2,935,000		1,101,286	
Production (boepd)	320		165	

[1] Cash flow and cash flow per share are based on cash flow from operations before changes in non-cash working capital.
[2] Natural gas is converted to boe at 6:1 on an energy equivalent basis.

The company's financial results for 2001 reflect Geodyne's continued production growth achieved during its second year of operations following the re-structuring of the company in 2000.

During 2001, Geodyne realized a production increase of 94%, to an average of 320 boepd, comprised of 1.7 mmcf/d of natural gas and 38 bopd of crude oil. Total revenue increased by 41% to $2,484,768 from $1,758,106 in 2000. Earnings were $991,837, or $0.08 per share, and cash flow was $725,027, or $0.06 per share, compared with earnings of $549,256 and cash flow of $807,151 recorded in 2000.

CANADIAN OPERATIONS

Operations results for 2001 reflect the acquisition of producing properties in Southeast Alberta, additional production from drilling successes, and the inclusion of a full year of production from the Kirkpatrick gas property acquired on April 1, 2000.

Natural Gas Production

(mcf/d)

	Quarter Ended March 31	June 30	Sept. 30	Dec. 31	Year Total
2001 Production					
Kirkpatrick	1,065	1,084	1,269	1,049	1,090
Stanmore/Provost	0	0	288	738	258
Southeast Alberta	0	0	0	1,350	341
Total	**1,065**	**1,084**	**1,557**	**3,137**	**1,689**
2000 Production					
Kirkpatrick	0	1,088	1,113	837	749

Production of natural gas for the first half of 2001 and for 2000 was from the Kirkpatrick property. Kirkpatrick production volumes for 2001 averaged 1,090 mcf/d for the year compared with 749 mcf/d average for 2000, or 1,001 mcf/d average for the nine-month period from the date of acquisition of the property to December 31, 2000.

Geodyne drilled six wells (4.3 net wells) during the second half of 2001 in the Stanmore and East Provost areas of Southeast Alberta. Production from these wells averaged 288 mcf/d for the third quarter, 738 mcf/d for the fourth quarter and 258 mcf/d averaged over a full year.

The company acquired producing properties in Southeast Alberta in September 2001. Production from these properties was included in operating results for the fourth quarter of 2001 and averaged 1,350 mcf/d for the quarter and 341 mcf/d averaged over a full year.

Crude Oil and NGLs Production

(bopd)

	Quarter Ended				Year
	March 31	June 30	Sept. 30	Dec. 31	Total
2001	**40**	**34**	**34**	**19**	**32**
2000	38	49	43	33	40

Geodyne produced an average of 28 bopd of crude oil and four bopd of natural gas liquids ("NGLs") from its properties in Alberta, a decrease from the 40 bopd of crude oil (NGLs – nil) produced in 2000. The decrease was primarily the result of reduced production from the Matziwin and Princess properties. The company decided to shut-in the Matziwin and Princess oil properties during the fourth quarter of 2001 as these properties have high operating costs due to high water production and associated water disposal costs and were unprofitable at the low oil prices experienced toward the end of 2001. The wells will be brought back into production in 2002.

Production and Prices

	Quarter Ended				Year
	March 31	June 30	Sept. 30	Dec. 31	Total
2001 Prices					
Natural gas ($ mcf)	**$ 9.06**	**$ 6.89**	**$ 3.06**	**$ 3.59**	**$ 4.75**
Crude oil ($ barrel)	**$ 25.36**	**$ 24.21**	**$ 31.33**	**$ 19.78**	**$ 26.05**
NGLs ($ barrel)	**$ 35.12**	**$ 34.67**	**$ 38.41**	**$ 29.38**	**$ 34.29**
2000 Prices					
Natural gas ($ mcf)	$ 0	$ 4.94	$ 5.47	$ 9.52	$ 6.49
Crude oil ($ barrel)	$ 35.00	$ 36.97	$ 41.07	$ 27.92	$ 35.71

Natural gas selling prices averaged $4.75 per mcf in 2001, substantially reduced from the $6.49 per mcf realized in 2000.

Prices for oil averaged $26.05 per barrel, a decrease of 27% from the 2000 average of $35.71 per barrel.

[illegible] NETBACKS

Canada

	Gas *($/mcf)*		Oil and NGLs *($/bbl)*	
	2001	2000	**2001**	2000
Selling price	**$ 4.75**	$ 6.49	**$ 27.15**	$ 35.71
Crown royalties	**(0.99)**	(1.32)	**(0.33)**	(0.10)
ARTC	**0.25**	0.33	**0.06**	0.08
Gross over-riding royalties	**(0.55)**	(0.95)	**(0.96)**	(1.15)
Operating costs	**(1.23)**	(1.19)	**(19.14)**	(20.12)
Net revenue	**$ 2.23**	$ 3.36	**$ 6.78**	$ 14.42

Revenue from natural gas sales, net of royalties and ARTC, was $2,183,048 and net revenue after operating costs was $1,426,029, compared with revenue of $1,243,404 and net revenue of $919,755 in 2000. Netbacks from gas averaged $2.23 per mcf during 2001 compared with $3.36 per mcf in 2000, a reflection of the lower gas prices.

Revenue from oil and NGLs sales after royalties and ARTC was $242,206 and net revenue after operating costs was $25,128, compared with revenue of $508,791 and net revenue of $212,455 in 2000. Netbacks from oil averaged $6.78 per barrel in 2001, down from $14.42 per barrel in 2000, due primarily to lower oil prices. The company is continually monitoring netbacks for oil properties and reducing costs to ensure adequate returns.

BOLIVIAN OPERATIONS

Production from the re-activated VMT-5 oil well in Bolivia commenced in the third quarter of 2001. Geodyne's 25% share of production for the period from August to December 2001 was 2,372 barrels (or six bopd averaged on a full year basis). During the four months ended December 31, 2001, the company recorded revenues, net of royalties, of $57,059 and a net loss after deduction of operating expenses of $30,750 for its Bolivian operations.

DEPLETION, DEPRECIATION AND SITE RESTORATION

Depletion and depreciation expenses increased to $547,662, or $4.70 per boe, up from $197,571, or $3.28 per boe in 2000, reflecting the increased level of activities in 2001. The provision for future

abandonment costs was $63,926, or $0.55 per boe in 2001, compared with $60,324, or $1.00 per boe, in 2000. The reduction in cost per boe was the result of a downward revision in estimated costs of site restoration and abandonment costs for the company's properties.

GENERAL AND ADMINISTRATIVE

General and administrative expenses were $606,483, or $5.21 per boe, compared with $276,374 in 2000, or $4.58 per boe, reflecting the expansion of the company's management and technical team to develop new prospects and establish the basis for future growth. The increased expenses consist of higher costs for salaries and consulting fees, regulatory reporting expenses, rent and general overheads.

INTEREST EXPENSE

Interest expense of $91,352 was incurred on the company's loans from a Canadian chartered bank, compared with $54,611 in 2000, and reflects the higher level of bank financing during the year. The interest is calculated at the bank's prime rate plus 0.75% to 1.25%.

INCOME TAXES

During 2001, the company recorded a future income tax benefit of $878,398 based on the estimated value, at current tax rates, of the excess of tax values over accounting values of assets and liabilities at year-end. This treatment is in accordance with the Canadian Institute of Chartered Accountants ("CICA") accounting standard for income taxes adopted by the company in 2000. The company did not record a future income tax benefit in 2000 due to the uncertainty of the realization of this benefit.

In addition, the future tax value of resource deductions to be renounced to purchasers of the company's flow-though shares amounting to $1.4 million has been recorded as a future tax liability and a reduction of share capital.

Tax pools available to reduce future years income for tax purposes amount to $9.9 million (subject to confirmation by income tax authorities) as described below:

Available Tax Deductions

	2001	2000
Canadian exploration expense	$ 221,000	$ –
Canadian development expense	255,000	249,000
Canadian oil and gas property expense	4,795,000	1,388,000
Undepreciated capital cost	695,000	210,000
Scientific research and experimental development	1,271,000	1,271,000
Foreign exploration and development expense	1,760,000	1,031,000
Cumulative eligible capital	494,000	532,000
Other	362,000	240,000
	$ 9,853,000	$ 4,921,000

The company has also accumulated non-refundable scientific research and development tax credits of $198,000 (expiring 2004) that are deductible from future income taxes payable. In addition, the company has $406,000 of attributed royalty income carry forward deductible from future income taxes payable in Alberta.

CAPITAL EXPENDITURES

	2001	2000
Drilling and completion	$ 740,269	$ 334,112
Oil field equipment	419,302	83,620
Land and other oil and gas activities	435,606	3,751
Exploration activities	324,181	21,339
Office equipment	66,235	14,036
Dispositions	0	(151,703)
Total	1,985,593	305,155
Bolivia	607,466	387,888
Argentina	212,603	353,872
Total	2,805,662	1,046,915
Acquisitions	3,503,197	1,635,670
Net capital additions	$ 6,308,859	$ 2,682,585

Capital expenditures and property acquisitions increased 135% to $6,308,859 from $2,682,585 in 2000. Expenditures in 2001 comprised $5,488,790 in Canada, $607,466 in Bolivia and $212,603 in Argentina.

In Canada, the company acquired petroleum and natural gas properties in Southeast Alberta for $3,503,197 and the remaining $1,985,593 in expenditures were for drilling and completions, oilfield and other equipment, tie-ins, geological and development work and office equipment. In 2000, the company also acquired the Kirkpatrick field for $1,635,670 and spent $456,858 for drilling and completions, oilfield and other equipment, tie-ins, geological and development work and office equipment. During 2001, the company drilled six gross wells (4.3 net wells), an increase from three gross wells (three net wells) drilled in 2000.

Expenditures in the Republic of Bolivia were incurred on the Villamontes Block ("the Block"), an oil and gas property located in southern Bolivia. Expenditures for 2001 relate to the re-activation and bringing into production of the VMT-5 well and preparing for drilling the VMT-1 sidetrack well in 2002. During 2000, the company's expenditures in Bolivia were for the acquisition of a 25% interest in the Block. Expenditures in Argentina in 2001 and 2000 were incurred in seeking new projects in South America.

During the fourth quarter of 2000, the company sold its Rainbow oil producing property for proceeds of $151,703.

Capital expenditures for 2002 are budgeted at $4.2 million and it is anticipated that the major portion will be spent on drilling and exploration activities in Western Canada.

[illegible]

The company performed a ceiling test at December 31, 2001, for its petroleum and natural gas properties based on proved reserves and constant prices. Proved reserves were taken from the McDaniel & Associates reserve report for Canada and the Gaffney Cline & Associates reserve report for Bolivia (see Reserves section of Annual Report). Constant prices, based on December 31, 2001, prices, were $3.66 per mcf for natural gas and $28.15 for crude oil in Canada. Prices were US$19.78 WTI, less a sales price discount of $3.98, for Bolivia.

The carrying value of capitalized petroleum and natural gas costs at December 31, 2001, net of depletion and provision for future abandonment costs, was $7.9 million. The value of the company's proved reserves at December 31, 2001, based on constant prices, was $9.0 million for Canada and US$1.3 million for Bolivia. Unproved lands in Canada were excluded from assets subject to the ceiling test. The value of these lands is estimated at a value of $2.0 million based on a valuation report prepared by Seaton – Jordan & Associates in December 2001. The capitalized costs of $566,476 for Argentina were assessed for impairment but were considered to relate to pre-production stage activities. The company has therefore elected to continue carrying these costs at their book value pending the outcome of continuing activities in Argentina related to the exploration for and development of new prospects in South America.

CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2002, Geodyne will adopt new CICA accounting recommendations relating to accounting for stock-based compensation and other stock-based payments. The company anticipates that the impact of adopting these new accounting recommendations will have no material impact on its financial results. In addition, Geodyne will adopt in the first quarter of 2002 new CICA guidelines relating to the balance sheet classification of debt. The impact of these guidelines will be to classify as current liabilities the amounts drawn-down under the company's bank credit facilities.

LIQUIDITY AND CAPITAL RESOURCES

Geodyne's capital expenditure and acquisitions program of $6,308,859, together with non-cash working capital of $65,314 acquired on the purchase properties in Southeast Alberta, was financed through a combination of internally generated cash flow, bank loans and the issuance of shares. Cash flow from operations was $725,027, and a further $823,396 was generated by a reduction in non-cash working capital. The company issued 11,709,125 common shares on a flow-through basis, and 141,109 on a non-flow-through basis, for net proceeds of $3,015,455. The balance of expenditures was funded by bank financing of $1,833,714 offset by an increase of $23,419 in cash and short-term deposits. The company anticipates that future capital expenditures will continue to be financed from an appropriate mix of internally generated cash flows and equity and bank financing.

The working capital deficiency of $889,433 is due to the excess of accounts payable and accrued liabilities over cash, accounts receivable and prepaid expenses. The relatively high level of accounts payable and accrued liabilities at year-end relate reflects the increased level of capital expenditures

and production operations of the company during the fourth quarter of 2001. The company anticipates that the working capital deficiency will be settled in 2002 out of cash flows from new projects developed in the last quarter of 2001.

Effective March 5, 2002, Geodyne's credit facilities with a Canadian Chartered Bank were increased to $5,000,000 and comprise a revolving demand loan facility of $3,500,000 and a non-revolving acquisition/development demand loan of $1,500,000. Amounts drawn down under the facilities bear interest at the bank's prime rate plus three quarters of a percent for the revolving demand loan and one and one quarter per cent for the revolving acquisition/development demand loan and are secured by all of the company's assets. The facilities are subject to periodic reviews by the bank with the next review scheduled on or before May 1, 2002.

As at December 31, 2001, the company had drawn down $2,450,000 against its previous revolving demand loan facility and $485,000 against its previous acquisition/development demand loan facility. Effective March 5, 2002, the outstanding amounts drawn down against these facilities were rolled into the new revolving demand loan facility.

If there is no adverse change in the financial position of the company, and if all terms and conditions of the facilities and security continue to be respected, the Bank does not foresee demanding repayment of the outstanding principal balance in 2002.

In Bolivia, pursuant to a development agreement, Geodyne is to contribute approximately US$1.3 million to be used in developing the Villamontes Block. At December 31, 2001, the company had contributed approximately US$0.5 million, leaving a balance of US$0.8 million to be contributed during 2002. Any amounts not spent in 2002 may be carried forward to future years.

The company is currently negotiating with its Bolivian partner to reduce its interest in the Block from 25% to 15% with a resulting reduction in the company's required contribution under the development agreement to US$0.3 million.

The company anticipates that the VMT-1 sidetrack well will be drilled and commence production during the first half of 2002 and that a portion of its share of capital expenditures will be funded out of operating cash flows from the Block.

BUSINESS RISKS

Geodyne's financial condition and future growth are dependent on prevailing oil and gas prices, which are subject to fluctuations in response to a variety of factors beyond the company's control. The company's operations in several producing properties are subject to incidental operating risks associated with the development and production of oil and natural gas. This includes blow-outs, pre-mature reservoir declines, equipment failure and availability of appropriate equipment. The occurrence of such events may impact Geodyne's ability to maintain or expand its existing asset base. Geodyne maintains an appropriate insurance program to lessen the risks and protect against significant losses.

A portion of the company's activities are conducted in South America and may be affected by changes in government policies in the countries of operations. The company's transactions in South America are primarily denominated in US dollars and are exposed to fluctuations in the Canadian to US dollar exchange rate.

The company has hedged a portion of its natural gas production for the period to October 31, 2002, through forward sales contracts (see note 11 to the financial statements) for the purpose of protecting future cash flows against the adverse affect of commodity price fluctuations.

management's responsibility

Management's Responsibility for Financial Statements

The consolidated financial statements and all information contained in this annual report are the responsibility of management and the Board of Directors of the company. They have been prepared by management in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's best estimates and judgments based on currently available information. The company has established accounting and reporting systems supported by internal controls designed to safeguard assets from loss or unauthorized use and ensure the accuracy of the financial records. The financial information presented throughout this report is consistent with the consolidated financial statements.

KPMG LLP, an independent firm of chartered accountants, has been appointed by the shareholders as external auditors of the company. The Auditors' Report to the Shareholders, which describes the scope of their examination and expresses their opinion, is presented herein.

The Audit committee of the Board of Directors meets with management and the independent auditors to satisfy itself that the responsibilities of the respective parties are properly discharged and to review the consolidated financial statements before they are presented to the Board for approval.

Abby F. Badwi
President and Chief Executive Officer

April 18, 2002

Martin H. Eden
Vice-President, Finance and Chief Financial Officer

April 18, 2002

auditors' report

To the Shareholders of Geodyne Energy Inc.

We have audited the consolidated balance sheets of Geodyne Energy Inc. as at December 31, 2001 and 2000, and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada

April 18, 2002

CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000

	2001	2000
Assets		
Current assets:		
Cash	$ **23,619**	$ 200
Accounts receivable	**644,705**	490,980
Prepaid expenses	**75,549**	20,097
	743,873	511,277
Capital assets *(note 2)*	**8,253,591**	2,492,394
	$ **8,997,464**	$ 3,003,671
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ **–**	$ 83,886
Accounts payable and accrued liabilities	**1,633,306**	666,047
	1,633,306	749,933
Bank loans *(note 4)*	**2,935,000**	1,017,400
Future income taxes *(note 5)*	**404,103**	–
Provision for future abandonment costs	**185,685**	121,759
Shareholders' equity:		
Capital stock *(note 6)*	**2,298,277**	565,323
Retained earnings	**1,541,093**	549,256
	3,839,370	1,114,579
Commitments *(note 10)*		
	$ **8,997,464**	$ 3,003,671

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended December 31, 2001 and 2000

	2001	2000
Revenue:		
Petroleum and natural gas sales	**$ 3,311,184**	$ 2,299,594
Less: royalties, net of Alberta Royalty Tax Credit	**(828,871)**	(547,401)
Other income	**2,455**	5,913
	2,484,768	1,758,106
Expenses:		
Operating	**1,061,906**	619,970
General and administrative	**606,483**	276,374
Interest on long-term debt	**91,352**	54,611
Depletion and depreciation	**611,588**	257,895
	2,371,329	1,208,850
Income before taxes	**113,439**	549,256
Future income tax recovery	**878,398**	–
Net income	**991,837**	549,256
Retained earnings (deficit), beginning of year	**549,256**	(1,314,836)
Reduction of stated capital *(note 6)*	**–**	1,314,836
Retained earnings, end of year	**$ 1,541,093**	$ 549,256
Earnings per share *(note 7)*	**$ 0.08**	$ 0.07
Weighted average number of shares outstanding	**12,820,442**	7,415,697

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2001 and 2000

	2001	2000
Cash provided by (used in):		
Operating activities:		
Net income	$ 991,837	$ 549,256
Items not involving cash:		
Depletion and depreciation	611,588	257,895
Future income tax recovery	(878,398)	–
	725,027	807,151
Change in non-cash working capital *(note 8)*	823,396	130,359
	1,548,423	937,510
Financing activities:		
Bank indebtedness	(83,886)	83,886
Issue of common shares (net of share issue costs)	3,015,455	256,904
Bank loans	1,917,600	1,017,400
	4,849,169	1,358,190
Investing activities:		
Capital expenditures	(2,805,662)	(1,198,618)
Acquisition of petroleum and natural gas properties	(3,503,197)	(1,635,670)
Acquisition of non-cash working capital	(65,314)	
Proceeds on sale of capital assets	–	151,703
	(6,374,173)	(2,682,585)
Increase (decrease) in cash	23,419	(386,885)
Cash, beginning of year	200	387,085
Cash, end of year	$ 23,619	$ 200

See accompanying notes to consolidated financial statements.

COMPANY ACTIVITIES

Geodyne Energy Inc. (the "company") is engaged in the exploration, development and production of crude oil and natural gas in Canada and South America.

1. Significant Accounting Policies

(a) Principles of consolidation
The consolidated financial statements include the accounts of the company and Geodyne Energy Production Inc., its wholly-owned subsidiary incorporated on September 24, 2001.

(b) Petroleum and natural gas operations
The company follows the full cost method of accounting for petroleum and natural gas activities whereby all costs related to the acquisition of, the exploration for and development of petroleum and gas reserves are capitalized. Costs include lease acquisition, geological and geophysical expenditures, drilling expenditures, related plant and production equipment costs and overhead costs that relate to exploration and development activities. All other general and administrative and interest costs are expensed. Proceeds on disposal of properties sold are deducted from capitalized costs without recognition of profit or loss except for dispositions that would alter the depletion and depreciation rate by 20% or more.

Capitalized costs, excluding costs relating to unproved properties, are depleted and depreciated on a country by country basis using the unit of production method based on estimated gross proven reserves as determined by independent petroleum engineers. Petroleum and natural gas reserves and production are converted into equivalent units based on estimated relative energy content.

Costs of acquiring unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

In applying the full cost method, the total capitalized costs less accumulated depletion, depreciation and provision for future site restoration costs are limited to an amount equal to the estimated future net revenue from proven reserves plus the cost (net of impairments) of unproven properties less estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

(c) Future site restoration and abandonment costs
The estimated costs for future site restoration and abandonments are provided for on a unit-of-production basis. The estimates are based upon regulations and industry standards in effect at year-end. The annual charge is included in depletion and depreciation expense and actual restoration costs are charged to the site restoration provision as incurred.

(d) Joint interest operations
A portion of the company's exploration and production activities are conducted jointly with other entities and accordingly these financial statements reflect only the company's proportionate interest in such activities.

(e) Office furniture, fixtures and equipment
Office furniture, fixtures and equipment are stated at cost. Depreciation is provided on a declining balance basis at rates ranging from 20 – 50%.

(f) Flow-through shares
Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Future income tax liabilities are increased and capital stock is reduced by the estimated tax cost of the renounced expenditures.

(g) Revenue recognition
Revenues from crude oil, natural gas and natural gas liquids are recorded when title passes to customers.

(h) Hedging activities
The company enters into forward sales contracts for a portion of its natural gas production to hedge natural gas prices against commodity price fluctuations. Gains or losses on these contracts are included in revenue at the time the hedged production is sold.

(i) Foreign currency translations
The company's Argentina and Bolivia operations are considered integrated and are translated into Canadian dollars using the temporal method. Monetary assets and liabilities are translated at the year end exchange rates and items included on the statement of operations and cash flows are translated

at rates in effect at the time of the transaction. Non-monetary assets and liabilities are translated at historical rates. The gain or loss on translation is charged to the statement of operations.

(j) Stock option plan
The company maintains a stock option plan. No expense is recognized when stock options are issued to employees as the exercise price equals the market price on the date of grant. Any consideration paid to the company upon exercise of the option is credited to share capital.

(k) Future income taxes
Effective January 1, 2000, the company adopted the liability method of accounting for income taxes in accordance with the recommendations of the Canadian Institute of Chartered Accountants. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The company previously used the deferral method of accounting for income taxes. Adoption of the new policy had no impact on the previously reported balances in the financial statements.

(l) Measurement uncertainty
Certain items recognized in the financial statements are subject to management estimates. The amount recorded for depletion and depreciation of petroleum and natural gas properties, the provision for future site restoration costs and the amount recorded for future income taxes are based on estimates. The ceiling test calculation is based on estimates of proven reserves, production rates, petroleum and natural gas prices, future costs and other applicable factors.

By nature these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods may be significant.

2. Capital Assets

	2001	2000
Petroleum and natural gas properties	$ 9,725,499	$ 3,482,879
Office furniture, fixtures and equipment	90,934	24,695
	9,816,433	3,507,574
Accumulated depletion and depreciation	(1,562,842)	(1,015,180)
	$ 8,253,591	$ 2,492,394

At December 31, 2001, costs related to unproved properties of $1,979,000 for Canada and $566,476 for Argentina have been excluded from costs subject to depletion and depreciation.

3. Acquisitions

On September 28, 2001, the company purchased petroleum and natural gas properties in Southeast Alberta for $3,568,511. Effective April 1, 2000, the company acquired petroleum and natural gas properties at Kirkpatrick Lake in Alberta for $1,635,670. The purchase price on acquisition of the properties was allocated as follows:

	2001	2000
Petroleum and natural gas properties	$ 3,503,197	$ 1,635,670
Prepaid lease rentals	65,314	0
	$ 3,568,511	$ 1,635,670

4. Bank Loans

In March 2002, the company refinanced its $3.3 million revolving demand loan facility and its $0.75 million non-revolving acquisition/development demand loan facility with a Canadian Chartered Bank. The facilities were replaced with a $3.5 million revolving demand loan facility bearing interest at the bank's prime rate plus 0.75 percent and a $1.5 million non-revolving acquisition/development demand loan facility bearing interest at the bank's prime rate plus 1.25 percent. The new facilities are secured by all of the company's assets.

At December 31, 2001, the company had drawn $2,450,000 against its existing revolving demand loan facility and $485,000 against its existing acquisition/development demand loan facility that bore interest at prime rate plus 0.75% and prime rate plus 1.25% respectively. The obligations outstanding under these facilities are classified as long-term as the lender has advised management that subject to the company complying with the terms and conditions of the Credit Agreement, the lender does not foresee demanding repayment of the loan in 2002.

5. Income Taxes

(a) Provision for income taxes

The income tax expense differs from the amounts that would have resulted had the combined federal and provincial statutory tax rate of 42.6% (2000 – 44.6%) been applied to the income before taxes for the year as follows:

	2001	2000
Computed expected tax	$ 48,325	$ 244,968
Increase (decrease) in taxes resulting from:		
Non-deductible crown royalties	260,536	167,109
Alberta Royalty Tax Credit	(77,862)	(40,763)
Resource allowance	(172,334)	(154,777)
Other	(205,867)	2,044
Reduction (increase) in valuation allowance	1,025,600	(218,581)
	$ 878,398	$ –

(b) Future income taxes

Significant components of the company's future tax assets and liabilities are as follows:

	2001	2000
Future income tax assets:		
Tax value of capital assets in excess of net book value	$ –	$ 1,025,600
Future abandonment cost deductions	79,102	–
Share issue costs	150,784	–
Valuation allowance	–	(1,025,600)
	229,886	–
Future income tax liabilities:		
Net book value of capital assets in excess of tax value	633,989	–
Net future income tax liability	$ 404,103	$ –

(c) Available tax deductions

The company has available, subject to confirmation by tax authorities, an estimated $9.9 million of income tax pools and other deductions that may be deducted in determining taxable income of future years.

In addition, the company has accumulated non-refundable scientific research and development investment tax credits in the amount of $198,000 that are deductible from future federal income taxes payable. These investment tax credits expire in 2004.

6. Capital Stock

(a) Authorized

Unlimited number of special shares without par value, issuable in series.
Unlimited number of common shares without par value.

(b) Issued capital

No special shares have been issued. Common shares issued are as follows:

	2001		2000	
	Number of Shares	Amount	Number of Shares	Amount
Outstanding at beginning of year	8,170,636	$ 565,323	6,860,549	$ 1,623,255
Issued for cash, net of tax of $1,433,286 (2000 – nil)	11,709,125	1,968,634	1,310,087	298,110
Issued for cash on exercise of stock options	141,109	22,578	–	–
Share issue costs, net of tax of $150,785 (2000 – nil)	–	(258,258)	–	(41,206)
Reduction of stated capital	–	–	–	(1,314,836)
Outstanding at end of year	20,020,870	$ 2,298,277	8,170,636	$ 565,323

On May 31, 2001, 170,000 shares were issued at $0.22 per share through a private placement for gross proceeds of $37,400.

In June and July 2001, 8,200,000 common shares were issued through a private placement at $0.28 per share on a flow-through basis for gross proceeds of $2,296,000.

In November and December 2001, 3,339,125 common shares were issued through a private placement at $0.32 per share on a flow-through basis for gross proceeds of $1,068,520.

On June 21, 2000 the shareholders approved a special resolution authorizing a reduction of $1,314,836 in the stated capital attributed to the company's common shares.

(c) Stock options
The following stock options to purchase common shares of the company have been granted to directors, officers, and employees. These options vest over three years and are exercisable on a cumulative basis over five years:

	2001		2000	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	**758,333**	**$ 0.16**	293,750	$ 1.08
Granted	**670,000**	**0.28**	943,331	0.16
Exercised	**(141,109)**	**0.16**	(159,998)	0.16
Cancelled	**(3,334)**	**0.16**	(318,750)	1.08
Outstanding at end of year	**1,283,890**	**$ 0.22**	758,333	$ 0.16
Exercisable at year end	**724,446**	**$ 0.20**	146,111	$ 0.16
Weighted average remaining contractual life	**4.0 years**		4.4 years	

(d) Warrants
In connection with the private placement of 8,200,000 flow-through shares in June and July 2001, the company issued to the agents for the private placement 246,000 warrants to purchase common shares at $0.38 per share exercisable at any time prior to close of business on June 30, 2002.

In connection with the private placement of 3,339,125 flow-through shares in November and December 2001, the company issued to the agents for the private placement 100,174 warrants to purchase common shares at $0.42 per share exercisable at any time prior to close of business on November 30, 2002.

7. Per Share Amounts
The dilutive effect of stock options and other dilutive instruments are computed under the treasury stock method, whereby only "in the money" dilutive instruments impact the diluted calculations. In computing diluted earnings per share, 271,463 shares were added to the weighted average number of common shares outstanding during the year ended December 31, 2001 (2000 – 100,004 shares) for the dilutive effect of employee stock options and warrants. No adjustments were required to reported earnings in computing diluted per share amounts.

8. Cash Flow Information

	2001	2000
Change in non-cash working capital:		
Accounts receivable	**$ (153,725)**	$ (458,808)
Prepaid expenses	**9,862**	(20,097)
Accounts payable and accrued liabilities	**967,259**	609,264
	$ 823,396	$ 130,359
Cash interest paid	**$ 91,352**	$ 54,308

9. Segment Information
The company operates in the oil and gas industry within three geographic segments: Canada, Bolivia and Argentina. During the year production commenced in Bolivia. Prior thereto all revenues were earned from the company's Canadian operations. Activities in Argentina are considered to be in the pre-production stage and all related costs have been capitalized. The ultimate recovery of these costs is dependent upon the acquisition of petroleum properties and production from the properties in commercial quantities.

(a) Revenues and profits:

	Canada	Bolivia	Total
Petroleum and natural gas sales	$ 3,235,959	$ 75,225	$ 3,311,184
Income (loss) before taxes	154,394	(40,955)	113,439
Depletion and depreciation	601,383	10,205	611,588

(b) Capital expenditures and assets:

	2001	2000
Capital assets by country:		
Canada	$ 6,701,966	$ 1,750,634
Bolivia	985,149	387,888
Argentina	566,476	353,872
	$ 8,253,591	$ 2,492,394
Capital expenditures by country:*		
Canada	$ 1,985,593	$ 456,858
Less: proceeds on disposal of assets	–	(151,703)
	1,985,593	305,155
Bolivia	607,466	387,888
Argentina	212,603	353,872
	$ 2,805,662	$ 1,046,915

*excludes acquisitions

10. Commitments

(a) Flow-through shares
By December 31, 2002, the company is required to spend $3.4 million, the proceeds from the flow-through shares issued in 2001 (see note 6(b)), on expenditures qualifying as Canadian exploration expense or Canadian development expense. During 2001, the company had incurred approximately $0.8 million of the qualifying expenditures, leaving $2.6 million to be incurred in 2002.

(b) Bolivia
During 2000, the company purchased a 25% interest in the Villamontes Block, an oil and gas property located in the Republic of Bolivia. Pursuant to a development agreement, the company is to contribute approximately US$1.3 million to be used in developing the property. At December 31, 2001, the company had contributed approximately US$0.5 million under the development agreement.

(c) Minimum lease payments
Future minimum operating lease payments for equipment used in field operations, by year and in aggregate, are as follows:

2002	$ 137,500
2003	69,000
Total minimum lease payments	$ 206,500

11. Financial Instruments

(a) Fair value of financial instruments
The carrying value of cash, accounts receivable and accounts payable approximate their fair value due to their relatively short periods to maturity. The carrying value of the bank loans equals their fair value as they bear interest at floating rates.

(b) Forward sales contracts
The company has a price risk management program whereby the commodity price associated with a portion of its future production is fixed. The company sells forward a portion of its future production through fixed price sales contracts with customers.

The company has fixed the price applicable to future natural gas production as follows:

	Volume (GJ/day)	Price (C$/GJ)
January 1 to April 1, 2002	1,000	$ 3.995
March 1 to November 1, 2002	1,000	3.330
April 1 to November 1, 2002	1,000	4.045
Weighted average for 2002	1,500	$ 3.719

The estimated fair value of the natural gas fixed price contracts has been determined based on the amounts the company would receive or pay to terminate the contracts at year end. At December 31, 2001, the amount the company would receive if the natural gas contracts were terminated would be $134,000.

corporate information

BOARD OF DIRECTORS

Abby F. Badwi
Mr. Badwi is President and Chief Executive Officer of Geodyne Energy Inc. Previously, he was president and founding member of Carmanah Resources and Vice-President, International Exploration with Sceptre Resources.

Charles W. Berard[1, 2, 3]
Mr. Berard is a partner with the law firm Macleod Dixon and has provided counsel to a large number of private and public companies, many of whom are in the energy industry. He is a director of several companies, including Vermilion Resources.

Carlos A. Garcia
Mr. Garcia is Senior Vice-President, South America with Geodyne Energy Inc. Based in Buenos Aires, Argentina, Mr. Garcia was previously General Manager of Exploration and Production with Compania General de Combustiles (CGC) managing the company's operations in South America.

Dale A. Lucas[1, 2, 3]
Mr. Lucas is an energy consultant and principal with Dale A. Lucas Enterprises Inc. He is past chairman of the Alberta Petroleum Marketing Commission and is currently a Director of EnCana Corp. and Powel Group Inc. in San Jose, Ca.

George W. Watson[1, 2, 3]
Mr. Watson is President and CEO of WNS Inc., and past president and CEO of TransCanada Pipelines. He is also Interim President, CEO and Director of Canadian 88 and a Director of Equatorial Energy, Queen's University and CODA.

OFFICERS AND MANAGEMENT

Abby Badwi
President and Chief Executive Officer

Charles Berard
Corporate Secretary

Martin Eden
Vice-President, Finance and Chief Financial Officer

Carlos Garcia
Senior Vice-President, South America

Leigh Muir
Vice-President, Production

Dermot O'Shea
Vice-President, Exploration

[1] *Member of the Audit Committee*
[2] *Member of the Compensation Committee*
[3] *Member of the Reserves Committee*

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BANKERS
National Bank of Canada

SOLICITORS
Macleod Dixon, Calgary

RESERVES EVALUATION
McDaniel & Associates, Calgary
Gaffney, Cline & Associates, Houston

REGISTRAR AND TRANSFER AGENT
CIBC Mellon, Calgary

STOCK EXCHANGE LISTING
Canadian Venture Exchange – "CDNX"
Trading Symbol – "GEL"

NOTICE OF ANNUAL MEETING
The Annual General Meeting of Shareholders will be held at 10:00 am on Thursday, June 6, 2002, in the Cardium Room, Calgary Petroleum Club, 319 – 5 Avenue SW, Calgary, Alberta. Shareholders unable to attend are encouraged to complete and return the accompanying form of proxy.

ABBREVIATIONS USED

boe	barrel of oil equivalent
boepd	barrels of oil equivalent per day (calculated @ 6:1)
bopd	barrels of oil per day
bwpd	barrels of water per day
mbbl	thousands of barrels
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
mmcf/d	million cubic feet per day
mboe	thousand barrels of oil equivalent
NGLs	natural gas liquids

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